

**VOLUNTEERS OF AMERICA
TESTIMONY ON ELDERLY HOUSING**

**SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY
FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES**

July 17, 2001

Madam Chairwoman, members of the Committee, I am Lee Felgar, senior vice president for development and acquisitions at Volunteers of America National Services, the national housing and health care division of Volunteers of America. On behalf of our organization, I want to express our sincere appreciation for your interest and concern for this vital subject and for inviting us to be here today.

Volunteers of America is one of the Nation's largest and most comprehensive charitable, nonprofit, spiritually based human service organizations. From rural America to inner-city neighborhoods, Volunteers of America engages its professional staff and volunteers in designing and operating high quality human services that deal with today's most pressing social needs for abused and neglected children, youth at risk, the frail elderly, the disabled, homeless individuals and families, ex-offenders, substance abusers, and many others in need of assistance.

Volunteers of America National Services is one of the nation's leading nonprofit providers of quality affordable housing for individuals and families in need, people with disabilities, and the elderly in over 220 communities across the United States, and is a growing provider of assisted living, skilled nursing and Alzheimer facilities for seniors with limited resources.

As a faith based organization we are committed to:

- High Quality Services
- A holistic approach to meeting an individual's physical, social, emotional and spiritual needs
- The dignity of each person
- A focus on what is best for individuals, families and communities through an extensive and fully participative communication process involving all parties, and
- A special focus for low-income persons

The problems we face as a non-profit services organization and as a nation in attempting to provide more and better facilities to house and serve America's seniors, especially the frail elderly, will be severely compounded by the expected rapid growth in the nation's aging population in the coming decades and the lack of adequate public policy and resources to meet that growth.

In its most recent report, "The State of the Nation's Housing 2001" the Joint Center for Housing Studies of Harvard University reported that heads of households over the age of 75 "are expected to increase by roughly 1.3 million over the decade." They go on to say that "This growth implies rising demand for housing that allows seniors to age safely in place and for specialized facilities such as assisted living and continuing care communities."

The Harvard report further indicates that, of the nearly 5 million one-person households to be added over the next decade, "almost one-third will be over the age of 65." This growth is not going to take place in the distant future, it is going to be taking place between now and 2010, when the baby boomer generation begins to retire in ever increasing numbers.

The U.S. Department of Housing and Urban Development anticipates that today's senior population will double in size by 2030, expanding at a rate of almost 3 percent a year to almost 70 million people by that time, with the fastest growing segment of that cohort being persons aged 85 and older. Commensurately, the Census Bureau estimates that 20 percent of the population in the United States will be beyond retirement age by 2030 compared with only about 13 percent today.

Clearly, as a nation we have a problem here of extraordinary scale and urgency as the housing programs and social services programs we have in place today will not keep pace with this situation.

These hearings and the work of this Committee and of the new Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century are exceedingly important for the future well being of a large segment of the American public, many of whom are in great need. Expanded and improved mechanisms for financing increasing development of elderly housing with a continuum of services is absolutely essential before we overwhelm programs like Social Security and Medicare / Medicaid, which were developed to help provide financial security for the senior populations of the 1930's and 1960's, respectively.

Volunteers of America, as an active member of both the Interfaith Coalition for Long Term Care and the Elderly Housing Coalition, believes we are at a time in our history that calls for serious debate that leads to the creation of a national long term care policy that is inclusive of the continuum of services issues of affordable elderly housing, adult day care, homecare, assisted living, and skilled nursing facilities. This is vitally important to persons who are frail and elderly, especially those who participate in federally assisted or subsidized housing, who are among the most vulnerable. They face the triple jeopardy of poverty, declining health and living alone. As they grow older in residences designed for independent living, they are at high risk of being forced into institutional nursing home care, or alternatively having their needs unmet. Much of this problem is due to the fact that the delivery of services to many persons is fragmented because of multiple funding streams, conflicting regulations, and overlapping state and federal government agencies. This fragmentation is not only costly, it often times leads to serious gaps in providing what is needed.

Adult children of middle and lower incomes, whose parents' face these housing and healthcare needs, are ill equipped both in terms of care management skills and financial capacity to meet all of these needs their parents face. Our nation has evolved to a point where these elders cannot look entirely to their adult children for financial and care support, as most of our households have the adults working full time to meet their own financial obligations and those financial needs of their young children. Where once upon a time in our nation, long term care meant providing for aging adults in their adult children's homes, we now by necessity have our adult children working long days at jobs that leave little time for adult care. Somehow and in some way the solution to this elder housing and elder long term care crisis must come from a comprehensive policy that cost effectively integrates programs and calls for some reasonable program for the sharing of costs from the individual, adult children, along with state and national government.

Some individuals might think that committed and competent providers, like Volunteers of America, have access to sufficient resources to meet the growing national need for elderly housing. Unfortunately, that is not the case, especially with respect to the growing need of frail elders who are not affluent. There has been a trend toward reduced funding for the development of new federally-assisted housing for seniors, the devolution of federal housing programs to state and local governments, short-term renewals and funding for Section 8 contracts, and the potential loss of affordable housing units to market-rate housing through Mark To Market.

The Section 202 program hit its peak in the late 1970's in production terms and has essentially been trending downward ever since. Even as recently as FY 1996, Section 202 was appropriated at \$830 million. The HUD request for FY 2002 is \$783 million, of which only \$679 million is for grants for new construction.

In addition, in the private money market elderly housing sponsors always have had the difficulty competing for capital because traditional sources of private capital have tended to see elderly housing loans as more labor intensive and less profitable because it has unique physical characteristics, unusual exposure to changes in government policy, and complex requirements for sponsor success. All of these barriers to capital availability are intensified in the case of affordable housing for frail elderly.

In a recent analysis of state housing finance agency bonds, Moody's Investor Services stated that it considered assisted living to have a significantly higher risk profile than traditional multi-family housing. Credit evaluation of an assisted living facility, the report states, "must encompass elements of real estate, such as historical and projected financial performance, physical condition, market demand, and property ownership and management. In addition, it must incorporate the hotel-like services and healthcare component offered by the facility. Moody's believes that this emphasis on personal care makes this type of product a greater risk than other types of affordable multi-family housing." Among the most significant risks listed by Moody's were high resident turnover, uncertainty over future regulations, and uncertainty over Medicaid funding for services.

Providers of long-term housing finance typically do not understand the terminology or analytic framework of the health care community. Health care regulators are unaware of the requirements of housing finance. The need to get participation and approvals for transportation, social service, and other regulatory bodies further complicates the discussion. Housing sponsors often must spend inordinate amounts of time and energy as a go-between because different disciplines give different meanings to important words. Often terms like "assisted living" acquire precise regulatory meanings that differ from state to state.

The needs of elders are many and persons of lower income have an even more challenging environment. When we at Volunteers of America sponsor an elderly housing development we must not only build the structure, we must find a way to create or bring social service support programs to our developments. Our typical resident at a HUD 202 property is a 75 year old female living on some very modest savings and Social Security income. For this person, a \$20 "emergency" is problematic. These elders are living at the economic edge even with the HUD 202 housing support.

We work to find no-cost or very low cost programs that provide meals, transportation, medical screening, home health care, case management, personal counseling and off-site trips on a property by property basis. None of this social service coordination is standardized. Each development is unique as each town or city has its own resources and programs. Typically, our residents fare better in larger cities that have the economic power and commitment to helping elders. However, most of the communities we serve do not have these programs in place and we try our best with the limited resources we have. Elders in rural communities face even more challenging circumstances. The USDA and Farmers Home programs serve those rural communities, but here again the burden of providing these support programs falls upon the sponsor. Project base funds for these support programs just are not there.

We at Volunteers of America encourage this Committee to consider the following issues and suggested courses of action that will greatly assist our nation in meeting this elder housing and elder care issue:

Recommendation #1

We believe the HUD 202 program is one of the finest programs that Congress and HUD ever created. The HUD 202 program is fair, administered well, and it reaches those elderly aged 62 and over (whose income is at 50% of area median income or less) in an effective way. The grant aspect of this program does not require there to be debt or equity, although most HUD 202 developments need some second tier grants in order to be completed. This simple capitalization structure enables the development process to move quickly and effectively in the hands of capable non-profit sponsors.

Because this program works so very well, we strongly encourage Congress to expand the program so that it can produce at least 10,000 new apartment units per year going forward over the next several years. We would also ask this Committee to have an actuarial study completed to identify the total population in need for this particular housing. From our HUD 202 properties sponsored by Volunteers of America I can tell you that 99 percent of them have very long waiting lists... we know the need is broad and deep throughout the nation. We encourage the Committee to examine how the HUD 202 program can be expanded to appropriate levels to meet this existing, and what will be, growing need.

Recommendation #2

We believe that within the existing stock of HUD 202 properties there are many that have the capacity to provide some measure of assisted living services, that is assistance with Activities of Daily Living, not dementia care.

Congress and HUD have previously provided some demonstration amounts of program funds for the physical conversion of some units of these buildings for physical asset changes. We appreciate that effort and would ask that the Committee seek to expand the funding for both physical asset conversions and for project based services. Heretofore, the HUD 202 program focused on independent living only in these facilities. As was mentioned previously, as residents age in place, their next stop in the continuum of care has to be, by necessity, skilled nursing facilities, as these low income elders cannot go anywhere else for housing and health care. These HUD 202 facility residents do not have enough money for market rate assisted living facilities and have no choice but to go to nursing homes once they can no longer live independently.

Nursing home care is expensive and we believe there needs to be a way to keep as many residents in HUD 202 facilities for as long as is possible until the residents truly need skilled nursing care in nursing homes. We believe that federal funding for social service programs for these residents in HUD 202 programs is appropriate and highly cost effective. We believe the Committee should investigate the real costs associated with what is going on here with the belief that funds can be more wisely spent in the 202 facility rather than in a skilled nursing home.

Recommendation #3

We continue to support those programs and initiatives that preserve project based rental assistance for affordable housing and low and moderate-income persons. We believe that this rental assistance is effective at meeting the need. We do not see for-profit developers and sponsors as being fully motivated to provide this housing and related services.

Recommendation #4

We at Volunteers of America actively participate in a variety of affordable housing programs to house and service elders, including the Low Income Housing Tax Credit Program. We applaud HUD's initiative to allow the HUD 202 Program and the Low Income Housing Tax Credit Program to work together to produce affordable senior housing.

However, we would like to advise the Committee that, although there are increased tax credits available now, we are seeing in the capital markets more and more pressure on housing sponsors to provide financial guarantees for project performance.

For example, we are working on a mixed finance senior housing campus on a HOPE VI site in St. Louis involving a HUD 202 facility and a Low Income Housing Tax Credit facility. We have been asked to provide a \$600,000 guarantee relative to the equity investment that is associated with a 40-unit tax credit facility during its compliance period from the tax credit investor. These sizable financial guarantees are a market place reality that sponsors must face and meet to the satisfaction of tax credit investors. For the time being we are able to meet these guarantees, but we know that many smaller and less capitalized non-profit organizations will not be able to meet these guarantee requirements from tax credit investors. Simply stated, the availability of more tax credits does not necessarily equate to more senior housing as these guarantees are onerous for many non-profit service organizations who want to sponsor such developments.

We also see many state Qualified Allocation Plans ("QAP") for tax credit allocations that do not provide special support for housing for elders. Many states focus on multi-family development to the exclusion of elder developments.

We also see a narrowing number of tax credit investors and we see a demand for higher investment yields... all of this works against higher production of elder housing using the tax credit program. We ask the Committee to take these market conditions under consideration as it contemplates future HUD 202 financing and suggested programs that call for greater affordable housing production.

Recommendation #5

We believe that HUD should consider the merits of allowing project based social service programs to be an allowable project expense, particularly as it reviews rent and debt levels in the portfolio re-engineering and refinancing programs. Allowing development owners to include these support programs, as project eligible expenses will help alleviate the problem for sponsors as to how these support programs are paid for. Absent this kind of financial support, non-profit sponsors must seek out financial support by other means and those other sources face huge demands on their limited funds.

The HUD Service Coordination Program has made a good start in providing persons to coordinate services and bring those services to the HUD 202 facilities. We believe this program is working well, but it is only a portion of the solution. The other portion is to allow some program services to be a project eligible expense.

Recommendation #6

We believe this Committee should create a new set of government agency expectations and directives that require agencies at all levels to work collaboratively to develop arrangements to provide resources for protective and supportive services. We believe there has been a good start with this concept as HUD and HHS have been meeting to discuss common areas of interest as it relates to elderly housing and social services. Both agencies serve the same elderly citizen profile and we believe that a merging of programs and funding sources can be a very powerful and cost effective way of dealing with the problems mentioned in other parts of this testimony.

HUD and HHS have the ability to create the kind of programs that can solve these matters. We believe this same cross program / cross agency approach can be replicated on the state level to create methodologies to cut through undue process and create simple standards and a sharing of funds to enable the non-profit community to be successful in meeting these challenges.

We also believe there is much to be gained by having Congressional committees which serve this same citizen profile, meet more frequently to discuss how a blending of resources and programs may be more effective than the approaches that have been taken in the past that have programs working in isolation of other programs.

Recommendation #7

We ask the Committee to support personal tax incentives for the purchase of long-term care insurance that includes assisted living as part of its coverage.

Recommendation #8

We would like to see greatly improved coordination between Medicare and Medicaid, with a blanket allowance for the use of Medicaid funds in homebound and assisted living settings.

Recommendation #9

We also see a need for better enforcement of laws that protect consumers against housing discrimination, such as the Fair Housing Act and Americans with Disabilities Act.

Recommendation #10

We would also ask for the Committee to ask HUD and the USDA to find ways to greatly simplify the process whereby non-profits make application for the transfer of ownership of housing developments from for-profit owners to non-profit owners.

In our experience we have found the process to be too lengthy, too broad and too expensive in terms of legal fees and management time. HUD's Transfer of Physical Asset process involves some 50 informational items. USDA's similar process involves some 80 items. We believe there is a way to consolidate and expedite the transfer process that will protect HUD's and USDA's interests, while enabling competent non-profits to acquire many more affordable housing developments from for-profit owners who no longer wish to participate in affordable housing that is regulated by HUD and the USDA. We believe there is a large number of affordable elder housing developments that can be preserved by means of a more user-friendly process. Beyond the HUD financed portfolio, the USDA portfolio stands out as having a huge potential positive impact in serving the elders in rural communities with successful recapitalizations and transfers to competent non-profit sponsors.

Recommendation #11

We would like to see Presidential commitment and leadership to engage the public, nonprofit providers, and policy makers in a national dialogue to find ways of developing a cohesive and cost effective approach to comprehensive long term care that includes affordable housing, health care, and coordinated community services for low-income seniors.

Summary

Madam Chairwoman, we appreciate the opportunity to bring you our ideas and perspectives. We assure you and all members of the Committee, that Volunteers of America is strongly committed to helping resolve these issues before the growing demand for elderly housing and supportive services spirals out of control. We are confident that sound solutions can be found and implemented in a way that is fiscally responsible and fair to all parties.

We appreciate your commitment to this cause and we look forward to working with you throughout this process. Thank you.

Submitted by:

Lee John Felgar
Senior Vice President
Volunteers of America National Services
1660 Duke Street
Alexandria, Virginia 22314
Telephone: 703-341-5072
FAX: 703-341-7001